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MONTHLY PROJECTIONS
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FALLING OIL PRICES ASSURE NON-INFLATIONARY GROWTH INTO SUMMER

Oil prices were expected to fall in our November and February forecasts, but prices were expected to stabilize at about $21 per barrel. In fact, oil prices have fallen to the low teens. This raises two questions: Why have oil prices fallen farther than anticipated, and what does such a sharp oil decline mean for the economic outlook?

Much of the turmoil in oil prices can be traced to late December, when Saudi Arabia decided that it no longer would be the swing producer that would ensure the contract price for OPEC oil. This decision by Saudi Arabia immediately increased the world supply of oil by 2.5 million barrels per day. At the same time, a more mild winter than normally anticipated led to an additional 0.5 million barrel decrease in oil demand in the northern hemisphere. The combined effects of the Soviet Nnatural gas pipeline and increased nuclear power in Europe reduced demand by another 0.8 million barrels per day. Of course, other nations also increased their production once oil prices began tumbling. Indonesia added 0.2 million to daily production while Nigeria, Iraq, Iran and other producers probably increased their production by an additional one million barrels. The Soviet Union, which had reduced production last year because of supply problems from its Siberian fields, began increasing oil supplies once again to Europe. On balance, increased supply and decreased demand created approximately a 10% excess supply of oil and oil products.

In the short-run, the price responsiveness of the oil market is between 0.2 and 0.3. At the extreme, this would mean that the shift in oil supply would generate up to a 50% reduction in oil prices. Thus, the contract price could tumble to the vicinity of $14 per barrel. It is more likely, however, that the prevailing price for such an excess should have fallen no lower than about $18 per barrel.

The additional plunge in oil prices to less than $12 temporarily in early March was caused by the reaction of oil traders. Worldwide, nearly two billion barrels of oil and oil products is held in inventory at any point in time. Many of these oil traders were reluctant to accept a large inventory loss on the pro-

duct they held in storage. Therefore, upon the realization that Saudi Arabia no longer would support prices, many of these dealers dumped their inventory on the world markets. Somewhere between 150 million and 200 million barrels of oil products immediately were dumped by the oil traders. This one-time additional supply could not readily be absorbed and forced prices sharply lower. Indeed, until this additional inventory is absorbed, prices will continue to fall.

On the other hand, any move by OPEC to reduce production or any change in desired inventories by oil traders as seasonal demand naturally begins to rise in the summer months, could quickly absorb this additional excess supply generated by released inventory holdings. As a result, the plunge in prices to $12 per barrel almost certainly will be temporary. A rebound in prices to more than $15 should be expected in the second half of 1986.

More significantly, the long-run price responsiveness in the oil markets greatly exceeds the short-run price responsiveness. While short-term elasticities are between 0.2 and 0.3, long-run elasticities appear to be greater than 0.7. Thus, oil prices will gradually rise from these unusually low levels in the absence of further fundamental increases in excess supply until prices stabilize in the low 20s. Indeed, by the end of 1987, oil prices may be in excess of $21 per barrel and will be rising. The lowest oil prices for the remainder of the century probably are currently being quoted on the futures markets.

Nevertheless, oil prices probably will average about $15 per barrel in 1986 before rising to $20 per barrel average in 1987. Such a plunge in oil prices will also generate weakness in natural gas and cause some concessions in coal prices as well. In the first two months of 1986, the fuel component of the PPI fell by 10%. Before the full impact of declining oil prices has run its course, this fuel component is expected to be 25% lower than year-end 1985 levels. Because fuel receives a .16 weight in the Producers' Price Index, these plunging prices will cause a 4.0 percentage point decline in producers' prices from what they otherwise would be. Of course, the falling dollar implies that the Producers Price Index would accelerate to an increase of 2.5% or slightly more in the absence of changes in oil prices. With the decline in oil prices, the PPI for finished goods now is expected to decline 1.5% for all of 1986.

Although not all of the decline in prices of finished goods will be transmitted into the commodity component of the CPI, nearly all will. Thus, prices for CPI commodity components are expected to fall 1% in 1986. With more moderate CPI changes than anticipated, wage pressures probably will remain moderate and should fall below earlier projected gains. This will tend to restrain prices of the service component. Therefore, service inflation probably will slow slightly to between four and 4.5% from the more than 5% that has prevailed in the past few years. When all of these factors are combined, both the CPI and the GNP deflator are expected to grow about 2% in 1986.

One interesting economic note follows from this analysis. Monetarists maintain that exogenous shocks in prices of commodities should have no impact upon overall inflation after adjustment. Any weakness in oil prices should lead to increased price pressures on other commodities. While some acceleration in commodity inflation is apparent where commodities are traded on international markets, there appears to be little pressure for intensifying inflationary pressures in other commodities to offset the weakness in oil. In fact, the plunge in oil prices will permit more moderate money growth for any given level of real economic activity than otherwise would prevail. As the quantity of

money slows its rate of growth during this period of plunging oil prices, the Federal Reserve will be in a position to maintain or even encourage reduced interest rates without seriously violating any money growth targets. Indeed, this type of response will generate lower inflationary pressures in 1987 than would have occurred in the absence of plunging oil prices. Nevertheless, when oil prices stabilize and then begin retracing a portion of their downward trajectory, inflation rates will intensify next year.

The plunge in oil prices has led to a significant decrease in inflationary pressures for all commodities. This, in turn, has increased the attractiveness of financial assets, especially fixed income instruments. Certainly, a one-time exogenous shift in oil prices should not be responsible for removing nearly three percentage points from the inflationary anticipations of long-term bond holders. Yet, yields on long-term government bonds have declined by nearly three percentage points in the past six months. The major reason for this dramatic decline in interest rates is the shift in bond inventory holdings by bond dealers. Until the fall, many dealers felt that interest rates could soon move higher. As a result, they were anticipating inventory losses for the bond holdings that they normally hold in order to maintain orderly markets. This explains why yields on long-term bonds were more than two percentage points higher than the borrowing costs needed to finance those inventories.

When it became clear that interest rates could fall, thus generating inventory profits, bond holders rapidly moved to raise their inventories until yields on those bonds no longer were higher than the borrowing costs of maintaining bond inventories. Indeed, investors actually bid the price of long-term government bonds below the borrowing cost of financing that inventory. This indicated that sentiment had shifted toward capital gains anticipations rather than capital loss fears. These gains were expected to be generated by declining short-term interest rates. The Federal Reserve did lower the discount rate, thereby justifying the initial beliefs of bond speculators. At the present time, with long-term government bonds yielding 7.9%, speculators are again anticipating a further reduction in the discount rate and in short-term borrowing changes. Our projections indicate that they will not be disappointed.

On the other hand, there is little likelihood that short-term interest rates will fall considerably further than the one additional discount rate cut that is anticipated in the projections. If so, long-term government bonds should fall to yields consistent with the borrowing costs of bond inventories. This would suggest that the low-point on the long-term bond market is approximately a yield of 7.75%. Thus, further capital gains appreciation appears to be minimal at the present time.

The decline in short-term interest rates slighly increases profit opportunities in 1986. However, profit gains after adjustment for IVA and capital consumption adjustment still should be less than 15%. Such a modest upward adjustment in profits would not lead to any significant upward adjustment in equity values. However, the plunge in long-term government bond yield to less than 8% exceeds earlier projections by more than a full percent. As a result, equity values could increase by 15% more than expected in our previous projections. Therefore, a Dow Jones average approaching 2000 is not out of the question for 1986.

Quarterly Profile of GNP

	1985-4	1986-1	1986-2	1986-3	1986-4	1987-1	1986 Annual
Real:	1.2	4.8	5.5	2.9	3.9	1.5	3.5
Price:	3.3	1.8	-0.6	2.9	3.3	4.4	2.0
Nominal:	4.5	6.8	4.8	5.7	7.3	5.7	5.8

Monthly Statistical Highlights for February 1986

Personal income +0.4%; savings rate 4.1%; personal consumption +0.2%; retail sales -0.4%; housing starts -11.7%; housing permits -6.3%; construction expenditures +0.1%; business inventories +0.4%; orders for durable goods -0.2%; orders for nondefense capital goods +6.5%; industrial production -0.3%; CPI -0.4%; PPI -0.7%; consumption deflator -0.2%; leading indicators +0.2%; real GNP +3.4%; M1 +5.9%; M2 +3.8%.

Monthly Statistical Highlights for March 1986

Payroll employment 215,000; index of hours worked +0.2%; household employment +293,000; civilian unemployment rate 7.1%; personal income +0.6%; savings rate 4.6%; personal consumption +0.1%; retail sales -0.9%; auto sales 10.0 million; housing starts 0.8%; housing permits -1.5%; construction expenditures 2.0%; business inventories +0.4%; orders for durable goods +1.0%; orders for nondefense capital goods +4.8%; industrial production +0.3%; CPI -0.3%; PPI -0.6%; consumption deflator -0.3%; leading indicators +0.5%; real GNP +6.8%; M1 +6.1%; M2 +6.2%.

COMMENTARY

Employment - Part of the February increase in unemployment appears to be associated with a misinterpretation of an unemployment survey question during January that was rectified in February. As a result, the January unemployment rate probably should not have fallen by 0.2 percentage points. Another reason for the sharp increase in unemployment in February was the flooding in California that may have largely been responsible for the sharp increase in unemployment of agricultural workers. These workers are expected to be re-employed when the flooding subsides in March and April. Also, January was an unusually severe month both in 1985 and in 1984. Therefore, seasonal factors probably led to overstating the significance of gains in employment and hours during that month. Therefore, a portion of the weakness observed in February means nothing more than adjusting for these excessive seasonal factors. If these arguments are correct, employment and the index of hours worked should once again move forward in March.

Of course, some areas of weakness are fundamental. The 15,000 job loss in oil and gas exploration will be compounded by further reductions in the next few months. Some of the weakness in transportation equipment also will intensify as the industry reduces auto assembly activity in order to adjust for excessive inventories.

The hourly earnings index once again accelerated in February, but the index currently is growing less than had been anticipated in our forecast and probably will continue to underperform forecasted values for the remainder of this year.

Personal Income & Outlays - Special factors led to the significant decline in personal income during January. A $13 billion reduction in farm income upon termination of some subsidy programs accounted for most of the weakness. In addition, government payroll increases that intensified December gains had no further impact in generating January increases. Finally, the annual inclusion of social security tax changes also held down the January estimates. Flooding in California probably will cause rental income to fall while declining interest rates will re-establish a downtrend in interest receipts. Nevertheless, a moderate gain in personal income is anticipated in February. It is clear, however, that reduced wages and more moderate growth in the index of hours worked will lead to considerably lower levels of personal income early in 1986 than contained in the February forecast.

The plunge in energy prices will be reflected in apparent weakness in retail sales activity. In addition, automobile sales slowed markedly after the special 7.9% financing incentives were removed in the last 10 days of February. This weakness in sales is expected to continue in March although the re-establishment of some incentives will cause a less abrupt decline in sales than expected in the forecast.

However, plunging energy prices will significantly restrain nondurable goods sales. As a result, retail sales are expected to decline both in February and March. As a result of this weakness, consumption expenditures before inflationary adjustment should show only modest increases. The source of any increases that materialize will be in the service component. It should be noted, however, that after inflationary adjustments, consumption will be growing acceptably in the first quarter. Indeed, consumer spending may exceed forecasted values after adjustment for inflation. This anomaly is created by the dramatic decline in oil prices. As a result of that decline, the Consumer Price Index is expected to fall both in February and March. In addition, the consumption deflator is expected to begin declining and continue falling into April. As a result of these price weaknesses, the GNP deflator is expected to actually decline modestly in the second quarter. Thus, the apparent weakness in expenditures will largely reflect weak prices rather than weak volumes.

Construction - Unusually mild weather accounted for a huge surge in single-family starts during January. The especially wet weather in the west will detract from starts in February. Nevertheless, sharp declines in mortgage rates should generate a healthier single-family housing market than originally projected. Housing starts will exceed 1.8 million units in 1986. We are still expecting that tax reform possibilities will significantly diminish rental activities later in the year and into 1987.

Although nonresidential construction surged at the end of 1985, orders for nonresidential construction are now falling sharply. In the past three months, orders have fallen by more than 20%. This should prevent any significant rebound in nonresidential expenditures in 1986. Thus, the stronger than originally anticipated gains for residential construction will be offset by weaker gains in nonresidential activity. The public sector will also struggle as a result of the inability to sell tax exempt bonds. In addition, the phasing out of general revenue sharing toward the end of 1986 is expected to restrain capital spending programs in the government sector.

Business Activity - In December, an unusual increase in orders for commercial aircraft helped to support orders for all durable goods. In January, the

aircraft orders were absent but a surge in defense orders was able to hold up orders for all durable goods. In February, a moderate rebound in orders for nondefense capital goods should develop, but declining defense orders should prevent any gains in orders for all durable goods. Because of a sharp plunge in shipments for both nondefense and defense capital goods, both sectors will be hard pressed to show any significant expansion in the first quarter of 1986.

Manufacturing inventories continued to liquidate in January. This liquidation is expected to gradually ease, although employment activity suggests that liquidations continued February. However, excess auto inventories began developing late in the month, causing a surge in inventories for retail goods. Significant further surges in retail inventories are expected in March, causing a signficant expansion in business inventories.

Weakness in manufacturing should be reflected in declining industrial production during February. However, a rebound in production of materials, business equipment, and defense and space all should lead to an increase in industrial production in March.

Prices - The plunge in oil prices is readily apparent in the price indices for consumer nondurables and in the overall CPI and PPI estimates. As a result of oil price weakness, these indicators will be slightly lower in June than they were in December. Inflation will rebound in the second half of 1986, probably growing at a 4% rate. Nevertheless, inflation now is expected to grow only 2% for all of 1986.

Miscellaneous - Because of the absence of orders for commercial aircraft in January, the leading indicators showed an unexpected decline. In February, only a modest increase is anticipated despite a significant surge in stock market values. By March, however, further stock market gains along with a surge in the money stock after adjustment for declining prices will contribute significantly to the leading indicators. Real money stock growth also will be a significant contributor to the leading indicators through the remainder of the spring. However, orders for capital goods are not expected to grow significantly from current levels while building permits also are expected to gradually fade. Thus, the leading indicators probably will turn trendless in the spring and show no significant movement during the summer.

Declining oil prices will be reflected in a narrowing trade balance deficit in the coming months. However, the volume of imports will continue to grow through the spring. Trade balances are expected to then more fundamentally narrow later in 1986 and into 1987.

Sharp swings in the IVA measure are caused by inventory profits, especially in the energy industries. A temporary surge in inventory profits developed in the fourth quarter but the plunge in oil prices almost certainly is creating dramatic inventory losses in the spring. These inventory losses should persist into the summer months before gradually being reconverted to inventory profits once again toward the end of the year, especially in those commodities which are traded in international markets.

Financial Markets

The sharp reduction in inflationary pressures appears to be the dominant force leading toward significant reductions in credit market pressures in recent weeks. Before oil prices began declining, more than $70 billion of energy materials was held in inventory. When these products are fully replaced, financing requirements will be reduced by nearly $25 billion. As a result, commercial paper outstanding could decline by more than $20 billion. In addition, corporations have become excited by the availability of financing in the long-term market. As a result, more than $7 billion of long-term corporate issues have been coming to market weekly. The result of this heavy borrowing is to reduce short-term credit market instruments. As a result, commercial paper rates are expected to fall to less than 7% in the spring. This will place further downward pressures upon the federal funds rate and may require the Federal Reserve to lower the discount rate one more time. As a result, the prime rate is now expected to fall to 8.5% by mid-spring. As mentioned above, the long-term government bond probably will encounter difficulty when it reaches a yield of 7.75%. However, there is no reason to expect a significant rebound in long-term bond yields until the fall, when inflationary pressures begin to reappear.

Actually, our analysis by sector suggests that interest rates should fall in the spring. The corporate sector will be sharply reducing inventory borrowings even as it gradually increases inventory investments. This is because the dollar value of inventory has been significantly reduced by falling prices. At the same time, corporate profitability assures that the corporate sector can self-finance its investment requirements. Therefore, corporations will be backing away from the credit market through the spring and into the summer months.

The government probably has reached a peak level of borrowing in the fall following the ending of borrowing restraints. Plunging oil prices and declining interest rates will reduce the government deficit for fiscal year 1987, probably to as low as $165 billion before significant Gramm-Rudman efforts develop. Thus, the government sector also will be gradually reducing its heavy burdens upon the credit markets. State and local governments have been effectively precluded from the tax-exempt market because of a "riduculous" provision in the tax-reform legislation. This may be reducing the capital spending programs of these governments, resulting in lower burdens upon credit markets than otherwise would be anticipated.

Even the household sector is beginning to increase savings following the termination of especially favorable finance conditions. Also, plunging oil prices will create a period of unanticipated savings for the household sector. The surge in household savings to 4.6% in March is almost exclusively the result of declining gasoline prices. Thus, all the sectors except foreign investors would indicate a significant decline in interest rates through the spring and into the summer months. Such a decline is being projected at the present time.

Nevertheless, the low point anticipated for the long-term bond is probably a yield of 7.75%. This would mean a yield of slightly more than 9% for the FAA and for conventional mortgage rates.

Equity Markets

As mentioned above, the decline in long-term interest yields to less than 8% increases the likelihood that stock market prices could grow above 1900 and approach the 2000 level. While these index numbers appear to be wildly excessive, it must be noted that bond yields have fallen by nearly 30% in six months, while the decline in financial costs will generate operating profits less tax liabilities that should increase nearly 15%. Thus, a one-time 45% spurt in equity values appears to be justified by prevailing economic conditions. The stock market probably will reach these higher points in the spring and then begin trending downward when long-term bond yields begin to rise.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	98559	98559	117.4	117.4	107813	107813	7.1	7.1	166.4	166.4
November	98739	98801	117.5	117.6	107969	107969	7.0	7.0	167.1	167.1
December	99059	99086	118.3	118.1	108206	108206	6.9	6.9	168.4	158.4
January 1986	99274	99507	118.6	119.3	108592	108955	6.8	6.7	169.2	167.5
February	99553	99733	119.0	118.9	108806	108561	6.9	7.3	170.0	168.5
March	99835	99948*	119.4	119.2*	109074	108854*	6.7	7.1*	170.9	169.1*
April	99986	100101	119.5	119.4	109265	109144	6.6	7.0	171.2	169.5
May	100184	100319	119.7	119.6	109532	109367	6.6	7.0	171.4	170.0
June	100380	100420	120.0	119.7	109799	109522	6.5	7.0	171.7	170.4
July	100617	100697	120.3	120.0	110013	109910	6.6	6.8	172.3	170.8
August	100872	100881	120.6	120.2	110184	110109	6.6	6.8	172.9	171.3
September	101127	100982	120.9	120.3	110329	110245	6.7	6.9	173.5	171.8
October	101256	101217	120.8	120.6	110483	110509	6.6	6.8	174.0	172.4
November	101403	101393	121.0	120.8	110729	110710	6.5	6.8	174.3	173.0
December	101382	101645	120.9	121.1	110843	111006	6.6	6.7	174.7	173.6
January 1987	101559	101822	121.2	121.3	111019	111219	6.5	6.7	175.6	174.3
February	101791	101998	121.5	121.5	111238	111411	6.5	6.7	176.5	175.0
March	102030	102175	121.8	121.7	111442	111581	6.5	6.7	177.3	175.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	3.331	3.330	1.991	1.992	127.8	127.8	2.825	2.825	2.698	2.698
November	3.347	3.347	2.003	2.004	120.3	121.0	2.838	2.838	2.717	2.717
December	3.394	3.386	2.025	2.022	106.1	99.1	2.879	2.873	2.773	2.774
January 1986	3.396	3.383	2.035	2.028	107.9	114.1	2.888	2.879	2.780	2.765
February	3.418	3.397*	2.048	2.035*	118.8	119.2*	2.907	2.890*	2.788	2.770*
March	3.440	3.417	2.062	2.048	149.8	132.5	2.926	2.906	2.776	2.773
April	3.455	3.436	2.071	2.058	144.3	135.1	2.937	2.921	2.793	2.785
May	3.471	3.455	2.079	2.069	134.7	138.8	2.949	2.936	2.815	2.797
June	3.487	3.471	2.088	2.078	122.7	136.2	2.962	2.948	2.839	2.812
July	3.505	3.489	2.100	2.089	118.5	136.4	2.973	2.962	2.855	2.826
August	3.522	3.509	2.112	2.101	123.1	137.5	2.985	2.978	2.862	2.841
September	3.539	3.525	2.125	2.110	117.8	134.7	2.997	2.990	2.879	2.855
October	3.558	3.547	2.132	2.125	120.7	134.0	3.011	3.008	2.890	2.874
November	3.578	3.567	2.139	2.137	118.8	132.7	3.027	3.024	2.908	2.891
December	3.599	3.591	2.146	2.152	114.0	140.8	3.044	3.044	2.930	2.903
January 1987	3.607	3.610	2.160	2.165	145.4	170.8	3.089	3.092	2.944	2.921
February	3.631	3.633	2.174	2.179	150.2	172.8	3.112	3.111	2.961	2.938
March	3.656	3.655	2.199	2.192	154.8	171.8	3.134	3.129	2.979	2.957

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	2603.1	2602.7	348.2	348.2	926.0	926.0	1328.9	1328.5	2301.6	2313.5
November	2621.7	2621.7	353.9	354.0	926.5	925.3	1341.3	1342.5	2303.8	2318.3
December	2675.1	2677.6	375.7	378.8	935.7	934.4	1363.7	1364.3	2342.5	2359.1
January 1986	2681.6	2667.0	380.5	376.5	939.6	930.1	1361.5	1360.4	2352.3	2344.4*
February	2687.7	2671.9*	378.2	371.6*	941.3	930.7*	1368.2	1369.6*	2359.7	2352.8
March	2673.7	2673.8	357.9	368.4	940.0	929.0	1375.8	1376.4	2345.4	2360.9
April	2689.5	2685.4	365.6	372.4	941.2	929.8	1382.7	1383.2	2351.0	2374.7
May	2709.8	2696.4	368.1	372.7	947.9	932.9	1393.8	1390.8	2358.4	2382.2
June	2733.0	2710.2	370.7	371.6	957.3	939.7	1405.0	1398.9	2370.3	2389.9
July	2746.7	2723.3	373.5	373.2	959.6	942.6	1413.6	1407.5	2376.0	2395.1
August	2752.6	2737.5	377.2	375.8	955.3	945.4	1420.1	1416.3	2375.0	2400.3
September	2768.7	2751.5	380.9	377.7	961.5	950.1	1426.3	1423.7	2382.7	2405.6
October	2778.3	2769.4	376.2	383.7	966.3	953.6	1435.8	1432.1	2380.7	2414.6
November	2794.5	2785.9	375.8	385.5	971.4	958.6	1447.3	1441.8	2386.4	2421.6
December	2815.0	2796.9	378.7	384.3	976.9	962.0	1459.4	1450.6	2395.7	2421.7
January 1987	2827.6	2814.0	380.6	388.4	980.8	965.7	1466.2	1459.9	2396.3	2427.0
February	2843.8	2830.1	382.8	391.0	984.0	969.6	1477.0	1469.5	2399.8	2432.2
March	2860.2	2848.1	385.1	392.9	987.3	974.9	1487.8	1480.3	2405.6	2437.5

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	114.86	114.86	17.37	17.37	9.6	9.6	72.94	72.94	24.55	24.55
November	115.62	115.41	17.39	17.34	9.8	9.8	73.40	73.22	24.83	24.85
December	117.86	117.41	17.79	17.79	11.5	11.5	73.83	73.68	26.24	25.93
January 1986	119.05	117.50	18.02	17.83	11.5	11.5	74.20	73.50	26.83	26.17
February	118.51	116.98*	18.22	17.90*	11.0	10.6	74.33	73.55*	25.96	25.53*
March	116.62	116.46	17.92	18.03	9.3	10.0*	74.23	73.41	24.47	25.02
April	117.22	117.00	18.12	18.15	9.4	10.2	74.32	73.48	24.78	25.37
May	118.04	117.28	18.16	18.32	9.6	10.1	74.85	73.72	25.03	25.24
June	119.09	117.69	18.09	18.41	9.9	9.9	75.59	74.26	25.41	25.02
July	119.60	118.10	18.26	18.58	10.0	9.8	75.77	74.49	25.57	25.03
August	119.60	118.63	18.34	18.55	10.3	10.0	75.44	74.71	25.82	25.37
September	120.41	119.22	18.56	18.69	10.3	10.0	75.92	75.08	25.93	25.45
October	120.44	120.20	18.72	18.73	9.7	10.1	76.30	75.36	25.42	26.11
November	120.81	120.80	18.79	18.92	9.6	10.0	76.71	75.75	25.31	26.13
December	121.58	120.93	18.49	18.90	9.9	9.9	77.14	76.02	25.95	26.01
January 1987	122.11	121.70	18.52	18.85	10.0	10.2	77.45	76.31	26.14	26.54
February	122.62	122.31	18.61	18.99	10.1	10.3	77.70	76.62	26.31	26.70
March	123.15	122.96	18.69	19.13	10.2	10.3	77.96	77.04	26.50	26.79

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	1.772	1.784	1.120	1.118	1.688	1.688	346.3	346.1	204.8	204.7
November	1.566	1.654	0.961	1.006	1.661	1.661	348.1	345.1	206.2	204.3
December	1.840	1.804	1.113	1.087	1.844	1.873	349.4	354.0	206.9	209.6
January 1986	1.869	2.088	1.182	1.353	1.792	1.870	353.8	357.3	209.0	211.0
February	1.854	1.843*	1.106	1.142*	1.726	1.753*	356.2	357.6*	210.1	210.6*
March	1.838	1.857	1.111	1.163	1.695	1.726	359.1	364.6	211.7	214.3
April	1.808	1.929	1.107	1.238	1.652	1.759	360.0	366.7	211.8	215.1
May	1.801	1.927	1.103	1.259	1.629	1.788	360.2	365.2	211.1	213.7
June	1.796	1.941	1.099	1.268	1.631	1.792	361.4	366.3	211.2	213.8
July	1.743	1.915	1.076	1.243	1.596	1.756	363.9	367.3	212.1	213.9
August	1.718	1.866	1.082	1.221	1.543	1.721	366.2	368.8	212.9	214.3
September	1.701	1.860	1.085	1.218	1.542	1.703	368.4	369.2	213.7	214.0
October	1.673	1.792	1.093	1.168	1.492	1.654	368.4	368.8	212.9	213.3
November	1.651	1.814	1.109	1.193	1.491	1.678	368.5	369.3	212.0	213.0
December	1.668	1.821	1.122	1.207	1.490	1.680	368.8	368.9	211.3	212.1
January 1987	1.681	1.811	1.139	1.205	1.517	1.662	369.9	368.7	211.4	211.3
February	1.689	1.775	1.146	1.192	1.543	1.643	370.2	369.5	210.9	211.1
March	1.697	1.747	1.152	1.176	1.554	1.609	370.7	369.5	210.7	210.4

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	132.1	132.2	63.6	62.8	150.6	151.1
November	133.4	132.8	64.5	62.5	150.3	149.7
December	134.3	138.9	65.1	64.5	150.0	150.6
January 1986	134.6	137.8	66.3	66.7	152.9	152.8
February	133.9	136.9*	67.4	66.2*	154.9	154.5*
March	133.9	136.8	68.2	66.8	157.0	161.0
April	134.7	137.6	68.3	67.3	157.0	161.8
May	135.6	137.9	68.0	67.6	156.6	159.7
June	136.4	136.8	67.7	68.0	157.3	161.5
July	136.3	136.9	68.7	68.2	158.9	162.2
August	136.8	137.6	69.4	68.5	160.0	162.7
September	137.2	138.3	70.0	69.0	161.2	161.9
October	138.1	138.7	69.5	69.2	160.8	160.9
November	139.0	139.1	69.0	69.5	160.5	160.7
December	139.9	139.0	68.4	69.3	160.5	160.6
January 1987	140.0	138.7	69.0	69.0	160.9	161.0
February	140.0	137.9	69.7	69.6	160.5	162.0
March	139.6	137.5	70.3	70.1	160.8	161.9

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	324.6	324.6	294.4	294.3	324.4	324.4	112.7	112.6
November	326.2	326.2	296.7	296.7	325.0	325.0	113.0	113.0
December	327.8	327.8	297.9	297.9	325.2	325.2	113.2	113.4
January 1986	328.7	328.7	297.3	296.2	323.9	324.0	113.6	113.7
February	328.6	327.5*	296.9	294.1*	322.5	322.7*	113.9	113.5
March	329.1	326.6	296.6	292.3	321.2	321.0	114.2	113.3
April	330.3	326.0	296.9	290.8	321.8	320.6	114.4	113.2
May	331.5	326.5	297.1	291.3	322.2	321.0	114.7	113.3
June	332.7	327.5	297.8	292.2	322.5	321.3	115.0	113.5
July	333.4	328.4	298.4	292.9	322.9	321.8	115.3	113.8
August	334.1	329.7	298.9	294.1	323.2	322.2	115.6	114.1
September	334.8	330.8	299.4	294.0	321.2	320.1	115.9	114.4
October	336.1	331.7	299.9	295.9	323.9	322.9	116.3	114.7
November	337.4	332.6	300.5	296.5	324.8	323.4	116.6	115.0
December	338.7	334.0	301.2	297.5	325.7	324.0	117.0	115.4
January 1987	340.2	335.1	302.0	298.4	326.5	324.8	117.4	115.8
February	341.7	336.5	302.9	299.5	327.0	325.3	117.9	116.2
March	343.3	337.7	303.8	300.6	327.6	326.1	118.3	116.7

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	113.1	112.5	104.7	103.9	108.8	108.3	118.7	118.3	169.0	169.0
November	113.8	113.1	105.2	104.2	109.1	109.1	119.1	118.7	168.8	168.9
December	114.2	113.5	105.6	104.8	109.9	109.8	119.6	119.0	168.9	168.9
January 1986	114.0	113.8*	105.0	105.0*	109.8	110.0*	119.9	119.3*	169.3	169.4
February	113.9	113.6	104.7	104.8	109.5	109.1	120.2	119.6	169.5	169.8*
March	114.0	113.3	104.5	104.9	109.5	107.8	120.5	119.9	169.6	170.1
April	114.4	113.1	104.7	104.9	109.7	107.0	120.9	120.2	170.0	170.5
May	114.9	113.2	104.9	105.1	109.9	106.7	121.6	120.6	170.6	170.9
June	115.3	113.4	105.1	105.0	110.1	106.8	122.2	121.0	171.1	171.3
July	115.6	113.7	105.3	105.2	110.3	107.0	122.8	121.4	171.6	171.7
August	115.9	114.0	105.5	105.4	110.4	107.2	123.2	121.9	172.0	172.1
September	116.2	114.4	105.7	105.6	110.5	107.5	123.6	122.3	172.4	172.5
October	116.7	114.7	106.0	105.7	110.9	107.7	124.1	122.8	173.0	172.9
November	117.1	115.0	106.2	106.0	111.5	108.0	124.8	123.2	173.8	173.4
December	117.5	115.5	106.4	106.2	112.0	108.2	125.5	123.9	174.5	173.9
January 1987	118.0	115.9	106.5	106.6	112.3	108.5	126.0	124.5	175.0	174.5
February	118.5	116.4	106.7	107.0	112.5	108.8	126.5	125.0	175.5	175.0
March	118.9	116.8	106.9	107.3	112.7	109.2	127.1	125.6	175.9	175.6

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	282.4	282.4	104.50	104.50	27.09	27.09	27.72	27.72
November	281.8	282.0	103.78	103.80	25.79	25.79	27.77	27.77
December	282.1	281.9	108.16	107.53	31.36	30.57	29.53	28.63
January 1986	282.9	280.7	106.19	108.90	28.42	24.57	29.03	25.70
February	283.7	280.0*	106.93	108.68*	28.65	26.17*	28.96	25.88*
March	284.9	280.8	107.53	109.72	29.13	27.43	29.11	27.36
April	286.2	281.7	107.27	110.13	29.10	27.92	29.15	27.94
May	287.3	282.8	106.78	109.68	28.66	28.59	29.07	28.37
June	288.3	284.0	107.08	109.43	28.93	28.26	29.08	28.58
July	289.5	285.1	107.46	110.21	29.17	29.06	29.12	28.69
August	290.8	286.4	108.13	110.04	29.25	29.17	29.15	28.93
September	292.0	287.8	107.92	109.63	29.02	29.03	29.14	29.04
October	293.5	289.2	107.43	109.27	28.86	28.82	29.12	29.16
November	295.4	291.0	107.16	108.64	28.72	28.69	29.18	29.02
December	297.4	292.4	106.92	108.43	28.78	28.43	29.23	28.69
January 1987	299.2	293.8	106.85	108.29	28.53	28.56	29.09	28.78
February	300.8	295.0	107.11	108.56	28.66	28.79	28.92	28.84
March	302.4	296.8	107.02	109.13	28.51	28.46	29.06	28.69

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	582.2	582.2	7.67	7.67	124.4	124.4	79.8	79.8
November	583.4	583.4	7.86	7.86	125.1	125.4	80.1	80.3
December	584.6	582.2	7.87	7.94	126.0	126.3	80.5	80.7
January 1986	585.1	579.3	7.95	7.29	126.8	126.7	80.8	80.8
February	587.6	581.4*	8.10	7.52*	127.0	126.3*	80.8	80.4*
March	589.7	583.6	8.23	7.93	127.2	126.7	80.7	80.5
April	591.4	585.5	8.30	8.05	127.5	127.0	80.7	80.6
May	594.5	587.8	8.33	8.16	127.8	127.3	80.7	80.7
June	597.4	590.2	8.37	8.24	128.1	127.5	80.7	80.7
July	599.1	592.5	8.46	8.27	128.2	127.8	80.6	80.7
August	601.5	594.9	8.57	8.40	128.3	128.0	80.4	80.7
September	603.8	597.3	8.69	8.49	128.5	128.2	80.3	80.6
October	606.4	601.2	8.65	8.54	128.7	128.5	80.2	80.6
November	610.7	605.0	8.60	8.60	128.8	128.7	80.0	80.5
December	615.5	608.2	8.61	8.63	128.7	129.0	79.7	80.5
January 1987	619.4	611.4	8.72	8.70	128.9	129.3	79.6	80.5
February	622.8	614.9	8.81	8.75	128.8	129.5	79.3	80.4
March	626.0	618.7	8.89	8.79	128.9	129.8	79.2	80.4

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	-11.47	-11.45	171.3	171.6	4030	4031	3576	3580	-6.2	-6.2
November	-13.68	-13.68	171.5	172.0	4058	4054	3591	3588	-9.7	-10.2
December	-16.57	-14.37	173.6	174.0	4097	4100	3619	3616	-14.6	-13.6
January 1986	-14.93	-16.46	173.0	173.0	4133	4121	3638	3624	-0.6	-0.3
February	-14.21	-15.62*	172.6	173.3*	4154	4125	3647	3634	4.3	9.6
March	-11.59	-14.93	173.0	174.1	4176	4140	3657	3654	14.0	15.8
April	-13.29	-13.26	173.4	174.3	4198	4161	3670	3676	12.1	15.1
May	-13.85	-13.57	173.3	174.6	4215	4178	3675	3688	6.0	9.3
June	-13.26	-13.84	173.8	174.4	4233	4194	3681	3695	2.3	7.2
July	-13.46	-13.52	173.5	174.0	4254	4213	3690	3702	-1.0	4.1
August	-13.35	-13.29	173.2	174.2	4274	4239	3697	3715	-1.8	2.6
September	-13.23	-13.38	172.8	174.5	4295	4256	3705	3720	-1.9	0.3
October	-13.69	-13.26	172.9	174.0	4319	4295	3714	3744	-4.7	-1.4
November	-13.49	-13.11	172.5	173.5	4346	4313	3727	3750	-9.3	-6.5
December	-13.28	-12.94	172.8	173.1	4375	4327	3739	3749	-14.2	-8.9
January 1987	-13.07	-12.90	172.5	172.5	4396	4347	3744	3754	-12.6	-9.6
February	-12.98	-12.76	171.6	172.8	4414	4373	3744	3763	-10.7	-10.4
March	-12.88	-12.57	171.4	173.0	4433	4397	3747	3767	-8.9	-10.6

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	231.3	231.3	611.1	614.1	2532.8	2538.3	7.99	7.99	7.33	7.33
November	232.7	232.8	617.9	620.0	2546.8	2550.6	8.05	8.05	7.30	7.30
December	235.0	235.5	624.5	626.5	2563.1	2565.5	8.27	8.27	7.09	7.09
January 1986	236.5	235.6	627.3	627.1	2582.7	2569.3	8.06	8.14	7.10	7.16
February	237.0	238.1*	629.2	630.1*	2603.5	2577.4*	7.96	7.86	7.08	7.11
March	237.6	238.9	631.0	633.2	2624.1	2590.3	7.85	7.53*	7.06	6.84*
April	239.2	239.3	633.7	634.2	2636.7	2600.7	7.53	7.02	6.92	6.53
May	240.9	239.9	636.2	635.7	2648.5	2613.7	7.42	6.88	6.89	6.42
June	242.5	241.1	638.6	638.4	3660.5	2629.4	7.31	6.83	6.85	6.36
July	243.8	242.3	641.1	641.1	2681.4	2645.2	7.25	6.85	6.82	6.41
August	245.1	244.0	645.8	645.4	2698.7	2662.9	7.31	6.92	6.86	6.48
September	246.4	245.2	650.5	648.6	2716.0	2681.5	7.37	6.78	6.88	6.39
October	248.0	246.5	653.4	652.5	2734.3	2703.0	7.59	6.97	7.13	6.48
November	249.1	247.8	656.9	655.7	2754.9	2721.9	7.63	6.88	7.21	6.36
December	250.2	249.2	660.4	659.1	2775.4	2741.0	7.68	6.82	7.28	6.29
January 1987	251.8	250.5	663.9	662.6	2791.3	2760.2	7.85	6.99	7.40	6.41
February	253.1	251.8	667.4	665.8	2809.1	2779.5	7.93	7.11	7.46	6.63
March	254.4	253.1	671.1	669.5	2826.9	2801.7	7.82	7.13	7.40	6.58

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	11.02	11.02	9.08	9.08	7.80	7.80	7.88	7.88	9.50	9.50
November	10.55	10.55	8.54	8.54	7.77	7.77	7.81	7.81	9.50	9.50
December	10.16	10.16	8.43	8.43	7.75	7.75	7.80	7.80	9.50	9.50
January 1986	10.05	10.05	8.27	8.08	7.72	7.71	7.84	7.82	9.50	9.50
February	10.12	9.67	8.25	7.44	7.63	7.63	7.75	7.69	9.50	9.50
March	10.08	8.73*	8.09	6.55*	7.56	7.42*	7.71	7.50*	9.50	9.32*
April	9.84	8.39	7.63	6.27	7.52	6.98	7.67	7.07	9.50	8.83
May	9.73	8.27	7.52	6.21	7.28	6.85	7.48	6.93	9.19	8.50
June	9.63	8.34	7.41	6.36	7.16	6.77	7.35	6.85	9.00	8.50
July	9.44	8.43	7.26	6.42	7.11	6.88	7.29	7.01	9.00	8.50
August	9.49	8.60	7.28	6.54	7.26	6.99	7.42	7.11	9.00	8.50
September	9.53	8.46	7.35	6.50	7.42	6.84	7.63	6.97	9.00	8.50
October	9.55	8.65	7.36	6.69	7.65	7.03	7.78	7.15	9.00	8.50
November	9.58	8.58	7.40	6.73	7.72	6.92	7.95	7.01	9.00	8.50
December	9.61	8.46	7.44	6.64	7.79	6.80	8.14	6.93	9.00	8.50
January 1987	9.88	8.59	7.62	6.82	7.93	7.05	8.23	7.18	9.08	8.50
February	9.95	8.83	7.74	6.97	7.99	7.20	8.30	7.33	9.50	8.82
March	9.96	8.69	7.77	6.83	7.95	7.11	8.27	7.22	9.50	9.00

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